

Message Text

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SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF AUG 22-28

1. SUMMARY: FOREIGN EXCHANGE MARKET CALM BUT GOLD MARKET
HECTIC AND NERVOUS IN ANTICIPATION IMF SEPTEMBER GOLD SALE.
SWISS BANKERS EXPRESSED BELIEF SHORT TERM TREND COULD SEE
GOLD PRICE FALL BELOW 100 BUT MAINTAINED CONVICTION LONG
TERM INTEREST IN GOLD AS RESERVE ASSET WOULD RESULT IN
PRICE RECOVERY. CAPITAL MARKET LIQUIDITY REMAINED HIGH
DESPITE RECENT LARGE BORROWINGS. LONG AND MEDIUM TERM
INTEREST RATES HAVE BEGUN TO SOFTEN. FEDERAL COMMISSION
STUDYING FOREIGN LABOR IN SWITZERLAND RECOMMENDED THAT
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SWISS GOVT REJECT POLICY OF SHARPLY REDUCING

NUMBER FOREIGN WORKERS. REPORT SAID FULL EMPLOYMENT SHOULD BE MAINTAINED THROUGH USE ECONOMIC STABILIZATION AND MONETARY POLICIES. LABOR STRIKE AT DUBIED SA NOW THREE WEEKS OLD. SWISS SIGNED DOUBLE TAXATION TREATY WITH CANADA. REAL WAGES ROSE DURING SECOND QUARTER 1976. IMPORTS OF CAPITAL INVESTMENT GOODS DURING SECOND QUARTER WERE BELOW 1974 AND 1975 LEVELS. DROUGHT THREATENS TO REDUCE HYDRO-ELECTRIC OUTPUT THIS WINTER.

FINANCIAL

2. FOREIGN EXCHANGE AND GOLD: FOREIGN EXCHANGE MARKET CALM. SWISS FRANC SHOWED SLIGHT GAIN AGAINST OTHER CURRENCIES. DOLLAR DIPPED TO SF 2.46 TUESDAY BUT FIRMED WITH REPORT THAT US LEADING ECONOMIC INDICATORS HAD RISEN. PRESS SPECULATED DM WOULD BE ALLOWED FLOAT FREELY AFTER FRG ELECTIONS. GOLD WAS HECTIC WITH LARGE TURNOVER, BUT CALM THURSDAY AND FRIDAY. PRICE FELL FROM 108 TO 104, LOW OF 101 WEDNESDAY, IN EXPECTATION IMF SALE. RATES FOLLOW:

	8/23 (OPEN)	8/27 (CLOSE)
SPOT DOLLAR	2.4790	2.4760
FORWARD DISCOUNTS (PCT. P.A)		
ONE MONTH	- 4.90	- 4.46
2 MONTHS	- 4.56	- 4.31
3 MONTHS	- 4.72	- 4.31
6 MONTHS	- 4.27	- 4.01
12 MONTHS	- 4.12	- 4.01
SF/DM	98.33	98.07
GOLD	108.25	104.

3. GOLD PRICE: SWISS GOLDPOL BANKS STRONGLY DENIED RUMORS THEY PLANNED BOYCOTT SEPTEMBER IMF SALE. SAID THEY BELIEVED PRICE COULD FALL BELOW 100. OVER SHORT TERM, BANKERS DISCOUNTED ABILITY OF MONETARY AUTHORITIES TO BRING PRICE UP BECAUSE FEW CENTRAL BANKS ARE ABLE TO MAKE LARGE GOLD PURCHASES. THEY ALSO DOUBTED THAT CENTRAL BANKS WHICH RECENTLY BOUGHT IMF GOLD WOULD BUY MORE TO REDUCE THEIR AVERAGE PURCHASE PRICE. PRESS REPORTED THAT SOVIET UNION APPARENTLY HAD REACHED LIMIT UNCLASSIFIED

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ITS CAPACITY BORROW FROM FOREIGN LENDERS; CONCLUDED THAT SOVIETS IN NO POSITION INFLUENCE GOLD PRICE THROUGH MARKET PURCHASES, HAVING STOPPED THEIR OWN SALES AT 125. BANKERS SAID IMF DECISION SELL ONLY AT PRICE BID AND PUBLISH BUYERS' NAMES WOULD ENCOURAGE BUYERS SUBM N LOWER BIDS AT NEXT SALE. PRESS REPORTED THAT SWISS MONETARY AUTHORITIES CONCERNED THAT DOLLAR ONCE AGAIN THE NUMERAIRE AND NO RESERVE ROLE LEFT FOR GOLD. SWISS

BANKERS REMAINED CONVINCED, HOWEVER, DOWNWARD TREND MUST REVERSE OVER LONG RUN, DUE PUBLIC, PRIVATE INTEREST IN GOLD AS RESERVE ASSET AND GOLD PRICE PERFORMANCE SINCE 1968. PRESS REPORT STATED THAT THOUGH US POLICY DEMONETIZE GOLD APPEARED TO HAVE WON BATTLE, WAR NOT OVER.

4. CAPITAL AND MONEY MARKETS: MARKETS REMAINED VERY LIQUID. MOST STOCKS REGISTERED SLIGHT DECLINE FROM PREVIOUS WEEK; SKA INDEX (END 1959 EQUALS 100) DOWN TO 212.6 AUG 26. CALL MONEY RATE REMAINED 0.5 PERCENT. AVERAGE YIELD CONFEDERATION BONDS FELL TO 4.99 AUG 27 FOLLOWING SF 500 MILLION CONFEDERATION BORROWING WHICH WAS HEAVILY OVERSUBSCRIBED. EUROMARKET INTEREST RATES FOR SWISS FRANC PLACEMENTS ONE, THREE AND SIX MONTHS ALSO FELL SLIGHTLY. LARGEST THREE SWISS BANKS REDUCED INTEREST RATES BY 0.25 PERCENT ON THEIR CASH BONDS FOR 3 TO 4 YEARS AND 7 TO 8 YEARS TO 4.25 AND 5 PERCENT RESPECTIVELY. RATE REMAINS 5 PERCENT ON 5 TO 6 YEAR BONDS. WORLD BANK ANNOUNCED IT WOULD SELL SF 350 MILLION IN CAPITAL SHARES ON SWISS MARKET SEPT 15 AT 6.125 PERCENT FOR 6 YEARS AT 100 PERCENT ISSUE PRICE.

5. TAX TREATY: SWITZERLAND AND CANADA SIGNED AGREEMENT ON AVOIDANCE DOUBLE TAXATION.

ECONOMIC

6. FOREIGN LABOR: FEDERAL COMMISSION STUDYING FOREIGN LABOR REPORTED THAT GOVT'S POLICY REDUCING NUMBER OF FOREIGN WORKERS PROBABLY CONTRIBUTED TO DEPTH RECENT RECESSION BECAUSE FOREIGN WORKERS, FAMILIES RETURNING HOME SHARPLY REDUCED DOMESTIC CONSUMPTION. COMMISSION RECOMMENDED THAT IN FUTURE UNCLASSIFIED

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UNEMPLOYED FOREIGNERS BE ALLOWED REMAIN IN SWITZERLAND, RECEIVE UNEMPLOYMENT COMPENSATION TO HELP STIMULATE DEMAND. ALSO URGED HIRING SWISS, RESIDENT FOREIGNERS FIRST DURING GRADUAL RECOVERY PERIOD TO ASSURE FULL EMPLOYMENT, FORESTALL NEW INFLUX FOREIGNERS. REDUCED DEPENDENCE FOREIGN LABOR BELIEVED LONG TERM POSSIBILITY IF EMPLOYMENT COORDINATED WITH ECONOMIC STABILIZATION AND MONETARY POLICIES. COMMISSION CALLED FOR GREATER JOB MOBILITY BY SWISS AND FOR POLICY OF HIRING WOMEN, RETIRED AND STUDENTS BEFORE FOREIGNERS. REPORT OPPOSED RECENT INITIATIVES LIMITING FOREIGNERS TO 12.5 PERCENT POPULATION, NEW NATURALIZATIONS TO 4,000 YEARLY. PRESS PRAISED REPORT.

7. LABOR DISPUTE: STRIKE AT DUBIED SA, NOW THREE

WEEKS OLD. NO END IN SIGHT. OBSERVERS CONCERNED STRIKE
MAY HAVE UNFORTUNATE OVERALL EFFECT SWISS LABOR RELATIONS.

8. WAGES: REAL WAGES CONTINUED INCREASE DURING SECON
QUARTER 1976. AVERAGE HOURLY WAGES INCREASED 1.7 PERCENT
OVER SECOND QUARTER 1975. MONTHLY WAGES ROSE 2.3 PERCENT.
CONSUMER PRICES INCREASED 1.5 PERCENT DURING THE SECOND
QUARTER 1976.

9. CAPITAL IMPORTS: SWISS IMPORTS OF CAPITAL
GOODS DURING SECOND QUARTER 1976 WERE SF 1.36 BILLION
COMPARED TO SF 1.4 BILLION IN SECOND QUARTER 1975 AND
WERE 23 PERCENT BELOW SAME PERIOD 1974. CAPITAL IMPORTS
DURING MAY AND JUNE 1976 ABOVE THOSE DURING SAME MONTHS
1975 BUT DROPPED DURING JULY.

10 WATER AND ELECTRICITY: DROUGHT THREATENS TO REDUCE
HYDRO-ELECTRIC OUTPUT THIS WINTER. RESERVOIRS REPORTEDLY
TWO-THIRDS FULL COMPARED 92 PERCENT AUG 1975 TICINO
PARTICULARLY AFFECTED WITH RESERVOIRS 50 PERCENT FULL.
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